

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-01 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 /047 W

----- 043911

R 211757Z MAR 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8530

INFO ALL EC CAPITALS 0470

AMEMBASSY ATHENS

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION AND PERMREP COMMENTS ON THE FINANCE

COUNCIL MEETING OF MARCH 18

REF: A) EC BRUSSELS 2447

B) EC BRUSSELS 2115

1. BEGIN SUMMARY: COMMISSION OFFICIALS BELIEVE THE EC FINANCE COUNCIL'S DECISION TO ADOPT A NEW UNIT OF ACCOUNT MADE UP OF A BASKET OF EC CURRENCIES REPRESENTS A STEP FORWARD FOR THE COMMUNITY. ALTHOUGH THE NEW UNIT HAS ONLY LIMITED APPLICABILITY AT THE PRESENT TIME, THE COMMISSION EXPECTS ITS USE WILL BE BROADENED IN THE FUTURE. THE FINANCE MINISTERS, HOWEVER, EVINCED LITTLE INTEREST IN ENLARGING THE EC'S ROLE IN MONETARY MATTERS. THEY WERE GENERALLY AGAINST STRENGTHENING THE EUROPEAN MONETARY COOPERATION FUND. END SUMMARY.

2. UNIT OF ACCOUNT (U.A.): COMMISSION OFFICIALS CONSIDER IT AN IMPORTANT FINANCIAL STEP TO OBTAIN THE COUNCIL'S AGREEMENT TO ADOPT A U.A. BASED ON AN EC MARKET BASKET OF CURRENCIES FOR SOME EC INSTITUTIONS. (SEE EC BRUSSELS 2115 FOR A DESCRIPTION OF THE NEW U.A.) PERMREP SOURCES SAY THAT THE BRITISH

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AND DANISH TECHNICAL RESERVATIONS ARE MERELY FORMALITIES AND THE

NEW U.A. WILL BE FORMLY ADOPTED WITHIN A FEW WEEKS. (UK SOURCES INFORM US THAT THE HOUSE OF COMMONS COMMITTEE WHICH SCRUTINIZES SUCH MATTERS HAS ALREADY GIVEN ITS APPROVAL TO THE PROPOSAL.)

3. COMMISSION OFFICIALS BELIEVE THE NEW ACCOUNTING TOOL WILL EVENTUALLY BE BORADLY APPLIED. THE COMMISSION HAS THE AUTHORITY TO CHANGE THE U.A. FOR THE EUROPEAN COAL AND STEEL COMMUNITY (ECSC). AFTER CONSULTING WITH THE EC FINANCE COUNCIL, IT PLANS TO ADOPT THE NEW U.A. FOR THE ECSC TO BE EFFECTIVE BEGINNING NEXT YEAR. THE COMMISSION ALSO INTENDS TO PROPOSE, PROBABLY IN SEPTEMBER, THAT THE NEW U.A. BE APPLIED TO THE EC'S BUDGET. THE COMMISSION PREFERS TO WAIT UNTIL AFTER THE BRITISH REFERENDUM BECAUSE CHANGING THE BUDGET'S U.A. WILL ALTER MEMBER STATES' BUDGETARY CONTRIBUTIONS AND RECEIPTS. THE FRG PERMREP ESTIMATES, FOR EXAMPLE, THAT THE NEW U.A. WOULD REDUCE ITS BUDGETARY CONTRIBUTIONS THIS YEAR BY THE EQUIVALENT OF \$350 MILLION. ON THE OTHER HAND, COUNTRIES WHOSE CURRENCIES HAVE DEPRECIATED WOULD HAVE TO PAY MORE. COMMISSION OFFICIALS ARE AWARE THAT THESE FINANCIAL IMPLICATIONS CREATE POLITICAL PROBLEMS WHICH MUST BE RESOLVED BEFORE THE NEW U.A. CAN BE APPLIED TO THE BUDGET AND THE CAP. COMMENT: THE COMMISSION WILL FACE STIFF OPPOSITION TO APPLYING THE NEW U.A. TO THE BUDGET, ESPECIALLY FROM THE UK AND ITALY. IT WILL PROBABLY BE A LONG TIME BEFORE THIS PROPOSAL IS ADOPTED (SEE REF A). END EOMMENT.

4. SHOULD THE NEW U.A. MEET THE TEST OF MARKET PLACE, COMMISSION OFFICIALS EXPECT THAT IT WILL BE USED IN OTHER ACCOUNTING TRANSACTIONS. IF A LEADER WANTS TO DIVERSIFY HIS INVESTMENT PROTFOOLIO, FOR EXAMPLE, HE MIGHT PURCHASE SECURITIES DENOMINATED IN THE NEW U.A. THE COMMISSION IS CONSIDERING USING THIS U.A. FOR ITS PROPOSED EUROPEAN COMMON BORROWING FACILITY. SOME COMMERCIAL CONTRACTS MIGHT ALSO BE DENOMINATED IN THE NEW U.A. IN ADDITION, COMMISSION OFFICIALS HAVE RECEIVED REPORTS THAT GREECE IS CONSIDERING TYING ITS CURRENCY TO THE NEW U.A.

5. MONETARY COOPERATION: BOTH THE EC MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES OPPOSED THE COMMISSION'S PROPOSAL TO STRENGTHEN THE EUROPEAN MONETARY EOOPERATION FUND (EMCF). THESE COMMITTEES THOUGHT EXISTING INSTITUTIONS COULD ADEQUATELY HANDLE EC MONETARY COORDINATION. THE EUROPEAN PARLIAMENT, LIMITED OFFICIAL USE

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HOWEVER, FAVORED THE COMMISSION'S PROPOSAL. MOST OF THE FINANCE MINISTERS SPOKE OUT AGAINST THE EMCF PROPOSAL AND OFFICIALS HERE EXPECT THE COUNCIL TO TURN IT DOWN AT ITS APRIL 21 MEETING. NEVERTHELESS, VICE PRESIDENT HAVERKAMP INTENDS TO PUSH AHEAD WITH THE PROPOSAL BECAUSE HE REPORTEDLY BELIEVES THE EMCF SHOULD BE GIVEN A ROLE IN COORDINATING EC MONETARY POLICY. GREENWALD

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCE, FINANCIAL TRENDS, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU02551
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750100-0670
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750328/aaaaaziy.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 EC BRUSSELS 2447
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ShawDG>; APPROVED <20 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSION AND PERMREP COMMENTS ON THE FINANCE COUNCIL MEETING OF MARCH 18
TAGS: EFIN, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006